The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2007: budgetary deficit of $2.7 billion

There was a budgetary deficit of $2.7 billion in October 2007, compared to a surplus of $0.5 billion in October 2006. The October 2007 results include a $2.5-billion adjustment to revenues to include the cost to date of personal income tax measures announced in the October 30, 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to $9,600, both effective January 1, 2007. Budgetary revenues were down $1.7 billion, as a decline in personal income tax revenues from this adjustment was partially offset by gains in corporate income tax revenues and other revenues. Program expenses increased by $1.7 billion, or 11.3 per cent, reflecting increases in transfer payments and departmental operating expenses. Public debt charges decreased by $0.1 billion.

April to October 2007: budgetary surplus of $6.6 billion

For the first seven months of the 2007–08 fiscal year, the budgetary surplus is estimated at $6.6 billion, up $0.2 billion from the $6.5-billion surplus reported in the same period of 2006–07. Budgetary revenues increased by $6.8 billion, or 5.3 per cent, largely driven by strong growth in corporate income tax revenues and non-tax revenues. Program expenses were up $6.9 billion, or 6.8 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were down $0.3 billion.

October 2007

There was a budgetary deficit of $2.7 billion in October 2007, compared to a $0.5-billion surplus in October 2006.

Budgetary revenues decreased by $1.7 billion, or 9.2 per cent, to $16.6 billion.

- Personal income tax revenues decreased by $2.6 billion, or 29.2 per cent, reflecting the inclusion in the October 2007 results of $2.5 billion in personal income tax reductions announced in the October 30, 2007 Economic Statement pertaining to the January to October 2007 period. In addition, there was one less large processing day for payroll deductions in October 2007 than in October 2006.
- Corporate income tax revenues rose $0.3 billion, or 12.6 per cent, down from the 21.1-per-cent gain recorded through September.
- Other income tax revenues—withholdings from non-residents—increased by $0.1 billion, or 15.6 per cent.
- Excise taxes and duties decreased by $0.1 billion, or 2.0-per cent, due in large part to a $0.2-billion, or 6.0-per-cent, decline in goods and services tax (GST) revenues.

- Employment Insurance (EI) premium revenues fell 4.8 per cent, consistent with the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose $0.7 billion, or 33.2 per cent, reflecting a gain from the sale and leaseback of seven federal office properties.

Program expenses in October 2007 were $16.5 billion, up $1.7 billion, or 11.3 per cent, from October 2006, reflecting increases in transfer payments, Crown corporation expenses and expenses of departments and agencies.

Transfer payments were up $0.7 billion, or 7.5 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, were up $0.1 billion, or 3.1 per cent. Elderly benefits increased by 6.4 per cent while EI benefits declined by 1.5 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were unchanged.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.4 billion, or 11.5 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers increased by $0.2 billion, or 12.1 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses rose $1.0 billion, or 18.1 per cent, due in part to a one-time adjustment to reflect an under-accrual of pension and other benefit costs in prior months.

Public debt charges decreased by $0.1 billion.

April to October 2007

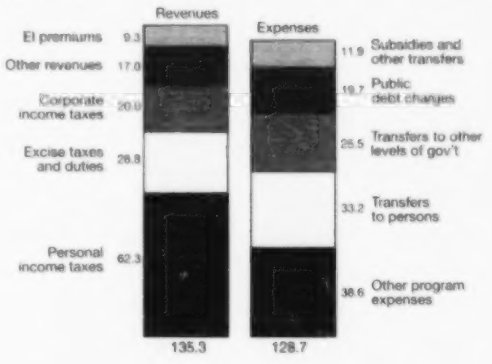
Through the first seven months of the 2007–08 fiscal year, there was a budgetary surplus of $6.6 billion, up $0.2 billion from the $6.5 billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by $6.8 billion, or 5.3 per cent, to $135.3 billion.

- Personal income tax revenues declined by $0.1 billion, or 0.1 per cent, reflecting the impact of tax relief measures retroactive to January 2007 announced in the October 30, 2007 Economic Statement.
- Corporate income tax revenues were up $3.3 billion, or 19.9 per cent, reflecting ongoing profitability of corporations.

Revenues and expenses
(April to October 2007)

$ billions



The exceptionally strong growth to date also reflects tax remittance patterns last year, when corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made up this difference with significant settlement payments in February and March 2007. As such, the high year-to-date growth rate of corporate receipts is expected to dissipate over the final three months of this fiscal year.

- Other income tax revenues rose 21.8 per cent, reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties increased by $0.4 billion, or 1.3 per cent. GST revenues declined by $31 million, or 0.2 per cent. Customs import duties and sales and excise taxes were both up $0.2 billion, while revenues from the Air Travellers Security Charge increased by $16 million.
- EI premium revenues were up $12 million, or 0.1 per cent, as gains in employment and wages and salaries offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues rose $2.7 billion, or 23.4 per cent.

Program expenses in the April to October 2007 period were $109.1 billion, up $6.9 billion, or 6.8 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

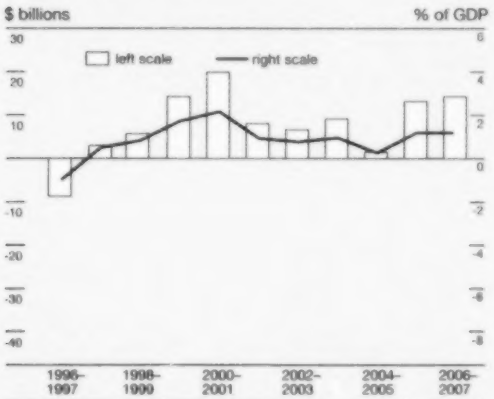
Transfer payments increased by $4.7 billion, or 7.1 per cent.

- Major transfers to persons were up $1.6 billion, or 5.2 per cent. Elderly benefits increased by 4.6 per cent and EI benefits by 2.3 per cent. Children's benefits were up $0.7 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up $1.9 billion, or 8.1 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up $1.1 billion, or 10.3 per cent.

Other program expenses increased by $2.3 billion, or 6.2 per cent.

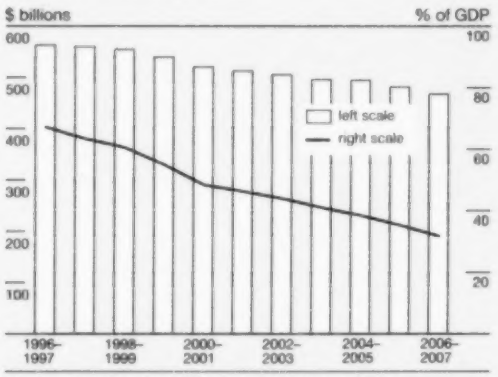
Public debt charges decreased by $0.3 billion, or 1.4 per cent, reflecting lower levels of unmatured debt.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Financial source of $16.3 billion for April to October 2007

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $6.6 billion and a source of $9.7 billion from non-budgetary transactions, there was a net financial source of $16.3 billion in the April to October 2007 period, compared to a net financial source of $2.9 billion in the same period of 2006. The appreciation of the Canadian dollar in 2007–08 is a significant factor in the increase in the financial source over last year.

Net financing activities down $31.5 billion

The Government used this net financial source of $16.3 billion and a reduction in its cash balances of $15.2 billion to reduce its market debt by $31.5 billion by the end of October 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at $6.0 billion, $2.5 billion above last year's level.

Table 1
Summary statement of transactions

	October		April to October	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary transactions				
Revenues	18,251	16,568	128,549	135,343
Expenses				
Program expenses	-14,851	-16,528	-102,158	-109,068
Public debt charges	-2,863	-2,760	-19,941	-19,656
Budgetary balance (deficit/surplus)	537	-2,720	6,450	6,619
Non-budgetary transactions	-728	5,653	-3,590	9,688
Financial source/requirement	-191	2,933	2,860	16,307
Net change in financing activities	134	-120	-17,393	-31,548
Net change in cash balances	-57	2,813	-14,533	-15,241
Cash balance at end of period			3,426	5,963

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	October			April to October		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,751	6,200	-29.2	62,364	62,291	-0.1
Corporate income tax	2,256	2,541	12.6	16,635	19,950	19.9
Other income tax	347	401	15.6	2,463	3,001	21.8
Total income tax	11,354	9,142	-19.5	81,462	85,242	4.6
Excise taxes and duties						
Goods and services tax	2,930	2,754	-6.0	18,584	18,553	-0.2
Customs import duties	334	346	3.6	2,125	2,297	8.1
Sales and excise taxes	710	791	11.4	5,568	5,762	3.5
Air Travellers Security Charge	30	31	3.3	213	229	7.5
Total excise taxes and duties	4,004	3,922	-2.0	26,490	26,841	1.3
Total tax revenues	15,358	13,064	-14.9	107,952	112,083	3.8
Employment Insurance premiums	918	874	-4.8	9,276	9,288	0.1
Other revenues	1,975	2,630	33.2	11,321	13,972	23.4
Total budgetary revenues	18,251	16,568	-9.2	128,549	135,343	5.3

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	October			April to October		
	2006	2007	Change	2006–07	2007–08	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,521	2,683	6.4	17,617	18,421	4.6
Employment Insurance benefits	1,121	1,104	-1.5	7,594	7,772	2.3
Children's benefits	987	987	0.0	6,319	6,980	10.5
Total	4,629	4,774	3.1	31,530	33,173	5.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,799	7.2	11,748	12,473	6.2
Canada Social Transfer	708	832	17.5	4,958	5,681	14.6
Total	2,386	2,631	10.3	16,706	18,154	8.7
Fiscal transfers	1,097	1,210	10.3	7,709	8,486	10.1
Canada's cities and communities	0	13	n/a	306	595	94.4
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-262	-264	0.8	-1,828	-1,785	-2.4
Total	3,221	3,590	11.5	23,543	25,450	8.1
Subsidies and other transfers						
Agriculture and Agri-Food	265	116	-56.2	1,047	705	-32.7
Foreign Affairs and International Trade	139	139	0.0	1,122	1,109	-1.2
Health	108	136	25.9	1,053	1,154	9.6
Human Resources and Social Development	114	166	45.6	942	977	3.7
Indian Affairs and Northern Development	373	475	27.3	2,754	2,890	4.9
Industry	246	198	-19.5	1,117	1,126	0.8
Other	453	673	48.6	2,750	3,930	42.9
Total	1,698	1,903	12.1	10,785	11,891	10.3
Total transfer payments	9,548	10,267	7.5	65,858	70,514	7.1
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	69	75	8.7	764	810	6.0
Canada Mortgage and Housing Corporation	209	181	-13.4	1,183	1,126	-4.8
Other	267	325	21.7	1,977	2,260	14.3
Total	545	581	6.6	3,924	4,196	6.9
Defence	1,359	1,995	46.8	8,817	9,824	11.4
All other departments and agencies	3,399	3,685	8.4	23,559	24,534	4.1
Total other program expenses	5,303	6,261	18.1	36,300	38,554	6.2
Total program expenses	14,851	16,528	11.3	102,158	109,068	6.8
Public debt charges	2,863	2,760	-3.6	19,941	19,656	-1.4
Total budgetary expenses	17,714	19,288	8.9	122,099	128,724	5.4

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	October		April to October	
	2006	2007	2006–07	2007–08
	($ millions)			
Budgetary balance (deficit/surplus)	537	-2,720	6,450	6,619
Non-budgetary transactions				
Capital investing activities	-218	384	-1,042	-1,115
Other investing activities	-1,314	-253	-1,785	-1,053
Pension and other accounts	331	1,123	2,886	5,142
Other activities				
Accounts payable, receivables, accruals and allowances	-308	2,340	-7,227	-1,457
Foreign exchange activities	535	2,274	1,792	6,749
Amortization of tangible capital assets	246	-215	1,786	1,422
Total other activities	473	4,399	-3,649	6,714
Total non-budgetary transactions	-728	5,653	-3,590	9,688
Net financial source/requirement	-191	2,933	2,860	16,307

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	October		April to October	
	2006	2007	2006–07	2007–08
	($ millions)			
Net financial source/requirement	-191	2,933	2,860	16,307
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,467	29	255	-3,388
Treasury bills	-1,300	1,600	-11,900	-21,600
Canada Savings Bonds	-45	-56	-470	-453
Other	-1	-5	-1,130	-556
Total	121	1,568	-13,245	-25,997
Foreign currency borrowings	-93	-855	-4,022	-1,586
Total	28	713	-17,267	-27,583
Cross-currency swap revaluation	129	-1,224	126	-4,360
Unamortized discounts on debt issues	-17	-93	-202	3
Obligations related to capital leases	-6	484	-50	392
Net change in financing activities	134	-120	-17,393	-31,548
Change in cash balance	-57	2,813	-14,533	-15,241

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2007	October 31, 2007	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	106,511	100,175	-6,336
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	254,094	-3,388
Treasury bills	134,074	112,474	-21,600
Canada Savings Bonds	15,175	14,721	-454
Other	1,743	1,187	-556
Subtotal	408,474	382,477	-25,997
Payable in foreign currencies	10,372	8,786	-1,586
Cross-currency swap revaluation account	-1,091	-5,451	-4,360
Unamortized discounts and premiums on market debt	-6,659	-6,656	3
Obligations related to capital leases	3,096	3,488	392
Total unmatured debt	414,192	382,644	-31,548
Pension and other accounts			
Public sector pensions	134,726	136,613	1,887
Other employee and veteran future benefits	45,123	46,500	1,377
Other pension and other accounts	5,211	7,088	1,877
Total pension and other accounts	185,060	190,202	5,142
Total interest-bearing debt	599,252	572,845	-26,407
Total liabilities	705,763	673,021	-32,742
Financial assets			
Cash and accounts receivable	92,586	72,466	-20,120
Foreign exchange accounts	44,178	37,429	-6,749
Loans, investments and advances (net of allowances)	45,094	46,147	1,053
Total financial assets	181,858	156,042	-25,816
Net debt	523,905	516,979	-6,926
Non-financial assets	56,637	56,330	-307
Federal debt (accumulated deficit)	467,268	460,649	-6,619

Note: Totals may not add due to rounding.

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